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JAPANESE INSURANCE COMPANIES

Summary

Japanese insurance companies have grown into giants with few people noticing. Heavy layers of regulation, different legal systems and demographic considerations have limited market penetration by Japanese firms in the United States and vice versa. Increasing U.S. investments by Japanese manufacturers, banks and securities companies, however, may eventually make Japanese insurance companies as important as providers of insurance here as they already are as investors.

In Japan major changes are under way. Competition among insurance companies and between them and other financial institutions is increasing. The Ministry of Finance has struggled to maintain a level playing field for all the contestants. The winds of deregulation and competition that are reaching the Japanese companies on their home turf may eventually push them farther into the U.S. market, either to learn ways of coping or because the profits to be earned in the huge American market would be more tempting than previously.

Introduction

Nippon Life Insurance Co. is the largest life insurance company in the world as measured by assets, edging out Prudential Insurance Co. of America. It is also larger in terms of revenues than any Japanese manufacturing company except Toyota Motor Corp. According to Forbes' ranking of international firms by 1987 revenues, the insurance giant is the twelfth-largest company in the world outside the United States.

Nippon Life and other large Japanese insurance companies are well-known on Wall Street. Their portfolio adjustments can affect the whole market. At home, they loom even larger. Nippon Life, for example, is the largest stockholder in the Tokyo Stock Exchange, the world's biggest, in which it owns 3 percent of the total shares. Yet Japanese insurance companies remain something of a mystery compared to their American counterparts or other Japanese firms of comparable size. This report explains who these companies are, what they do and how they fit into the economy of Japan and, increasingly, the world economy.

What Insurance Companies Do

Insurance protects against risk. Those individuals and firms that buy insurance pay a charge called a premium that the insurance company invests until it is needed to pay any claims. Insurers make their money on the difference between what they receive in premiums and investment income and what they pay out in claims and expenses. Beyond this, things get more complicated. For instance, a mutual insurance company uses part of its premium income to invest in itself, thereby eliminating the need to issue stock to the public. Such insurance companies, which are in effect owned by their customers, are common in both the United States and Japan.

A company may concentrate on one kind of insurance. In fact, in Japan and, to a lesser extent, in the United States specialization has resulted in two broad types of companies: life insurance companies and property and casualty companies, called non-life insurance companies in Japan.

This distinction is becoming a more difficult one to make. A non-life insurance company offers health insurance, but a life insurance company may offer a plan to pay benefits to those who are very sick. In addition, insurance companies in both countries have developed products that go beyond protection against risk. To cite just one example, many policies allow those who have filed no or few claims in the contract period to receive a share of the return on the investments made with the premium payments. These policies, which in Japan are offered by both life and non-life companies, are in effect hybrids of investment and insurance products. Their increasing popularity has blurred the distinctions in both the United States and Japan among different kinds of insurance companies and between insurance companies and other financial institutions such as banks and brokerage houses. For government regulators overseeing different policies for each industry, these changes have created a big headache.

For really large potential disasters, insurers do not want to bear the entire risk themselves. No Japanese insurance company would want to be liable for paying claims resulting from a repeat of the 1923 earthquake that leveled Tokyo, but even tragedies such as the loss of multimillion-dollar airplanes could seriously hurt the bottom line. Reinsurance has developed in response to this need: insurance companies in effect share their risks and returns with other companies, preferably ones that would otherwise insure very different risks. Going abroad has been an easy way to accomplish this, turning

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reinsurance into an international business. For example, when an Air France Airbus A320 crashed in France in June, insurance companies in France, the United Kingdom and elsewhere shared in making up the $45 million loss.

Even if insurance companies eventually end up paying in claims most of what they collect in premiums, in the interim they have millions of dollars to invest. This is especially true for life insurance companies, where all but the oldest policyholders pay far more in premiums than they collect in claims in a given year. Compared to other investors, insurance companies have a long-term perspective. If the claim against the funds is 40 years away, as it might be in the case of a life insurance policy, the company need not worry much about whether the price of a stock falls this year, for example. Nor is it worried much about liquidity -- the ability to sell the investment quickly for cash -- since the insurer will not need the funds for a long time.

Portfolio diversification is important for insurance companies, allowing them to invest in areas outside their insured risks and to hedge their investment bets. Clearly, to the extent that Japanese companies offer earthquake insurance without obtaining reinsurance, they would be careful about buying real estate in the same geographic region. In addition, diversification is considered sound portfolio management strategy for almost anyone. Considering the giants that Japanese insurance companies have become, international investment is something of an imperative. Responding to this need, the Ministry of Finance in August 1986 increased the amount that Japanese companies could invest abroad to 30 percent of total assets from 25 percent and liberalized the percentage of the increase in assets that could be invested overseas; the result has been a rapid expansion in foreign investment, especially in the United States.

Table 1 shows how life insurance companies have invested their money. (Non-life insurance companies have a similar distribution of assets but are much smaller.) Life insurance firms' efforts at diversification are striking, particularly as they head into overseas securities markets and out of domestic lending. Less evident from the table is what is said to be the companies' long-term portfolio management strategy: paying little attention to price fluctuations of the properties they hold, a reflection of their long-term investment perspective.

As investors, Japanese life insurance companies play an important role in the Japanese economy. In 1985 it is estimated that they held 12.3 percent of the shares by market value on Japanese stock exchanges. Since non-life insurance companies owned another 4.1 percent, the 16.4 percent figure for Japanese insurance companies rivaled the 18.4 percent share controlled by Japanese banks.

Life Insurance in Japan

Japan is among the world's best markets for life insurance. More than 90 percent of the population has life insurance, and the amount per person is 50 percent greater than in the United States. The ratio of life insurance in force per level of national income is high and has risen as the economy has grown (see Table 2).

Table 1: Total Assets Held By Japanese Life Insurance Companies

(in billions of yen as of March 31 of each year)

	1975	1981	1986	1987
Cash on Hand and Deposits	Y133.5 (1.2%)	Y445.2 (1.7%)	Y6,248.6 (11.6%)	Y7,570.4 (11.6%)
Call Loans	92.4 (0.8%)	214.9 (0.8%)	146.7 (0.3%)	130.1 (0.2%)
Securities	2,313.5 (20.9%)	7,976.0 (30.4%)	18,981.4 (35.2%)	26,791.9 (41.0%)
Central and Local Government Bonds	60.2 (0.5%)	1,363.3 (5.2%)	3,413.6 (6.3%)	4,570.6 (7.0%)
Corporate Bonds	224.3 (2.0%)	1,422.8 (5.4%)	2,664.9 (4.9%)	3,266.9 (5.0%)
Stocks	2,022.8 (18.2%)	4,520.1 (17.2%)	8,113.9 (15.1%)	11,100.5 (17.0%)
Foreign Securities	5.7 (0.1%)	669.0 (2.5%)	4,668.2 (8.7%)	7,525.3 (11.5%)
Other Securities	0.5 (0.0%)	0.8 (0.0%)	120.8 (0.2%)	328.6 (0.5%)
Loans	7,545.8 (68.0%)	15,685.1 (59.7%)	24,372.2 (45.2%)	25,636.6 (39.2%)
Policy and Premium Loans	617.8 (5.6%)	1,117.4 (4.3%)	1,973.6 (3.7%)	2,174.3 (3.3%)
General Loans	6,928.1 (62.5%)	14,567.7 (55.5%)	22,398.6 (41.6%)	23,462.4 (35.9%)
Real Estate	923.2 (8.3%)	1,647.8 (6.3%)	3,196.2 (5.9%)	3,777.0 (7.0%)
Other Assets	85.3 (0.8%)	288.8 (1.1%)	925.5 (1.7%)	1,411.1 (2.2%)
Total Assets	11,093.7 (100.0%)	26,257.8 (100.0%)	53,870.6 (100.0%)	65,317.1 (100.0%)

Note: Subtotals may not add due to rounding.

Source: Ministry of Finance

Table 2: Insurance and National Income in Japan

(in billions of yen)

Fiscal Year	National Income at Factor Cost	Life Insurance in Force	Life Insurance/ National Income
1955	Y8,173.4	Y2,846.4	34.8%
1960	13,290.4	6,997.1	52.6
1965	26,380.4	24,417.3	92.6
1970	61,029.7	78,230.1	128.2
1975	123,990.7	265,417.8	214.1
1980	199,335.2	572,328.3	287.1
1981	208,156.6	642,851.4	308.8
1982	216,859.1	706,176.5	325.6
1983	228,118.8	758,672.4	332.6
1984	239,810.7	807,670.2	336.8
1985	254,519.2	880,734.1	346.0
1986	264,853.0	967,392.8	365.3

Source: Ministry of Finance and Economic Planning Agency

As with other financial services such as banking, life insurance is concentrated in far fewer companies in Japan than here. While more than 2,000 life insurance companies operated in the United States in early 1987, there were only 24 that year in Japan (see Table 3), a figure that has changed little in recent years.

Until recently, however, U.S. companies ranked higher in assets. In 1987 Prudential Life and Metropolitan Life Insurance Co. were both larger than Nippon Life as measured by assets, and Equitable Life Assurance Society of the United States was larger than Dai-Ichi Mutual Life Insurance Co., Japan's number-two life insurance company. Together the five companies were the world's largest. Preliminary March 31, 1988 figures, however, put Nippon Life on top, a change that in part reflected the appreciation of the yen in 1987.

The Banking Bureau of the Ministry of Finance regulates insurance companies closely. Both entry into the market and product type are carefully controlled. Moreover, MOF essentially sets industry-wide premiums and dividend rates on policies, although for some types of pension funds, insurance companies pay differing rates of return. Foreign observers describe the arrangement as cozy and comfortable for Japanese insurers compared to the situation in the United States; that is hardly surprising considering the small number of sizable competitors in Japan.

Conditions would appear to be tailor-made for foreign companies to come in and make a killing. The inability to compete on price, however, limits their options. For Japanese firms, the lack of price competition has diverted

rivalry to distribution, with each major company employing thousands of salespeople. Nippon Life, for example, has 75,900 employees, mostly women, who knock on doors selling policies. For foreign companies, this system is a substantial barrier to entry. While the Minstry of Finance officially welcomes foreign firms, partly because they are seen as a source of new products, few participate in a major way. Table 4 lists foreign life insurance companies operating in Japan. (To this list should be added the four foreign-headquartered companies included by MOF on Table 3's roster of purely domestic companies.) Overall, the Commerce Department estimates that foreign companies have about 2 percent of the life insurance market in Japan.

Table 3: Assets of Japánese Life Insurance Companies

(as of March 31, 1987)

	Assets (millions of yen)	Share	Cumulative Share
Nippon Life Insurance Co.	Y15,144,514	23.2%	23.2%
Dai-Ichi Mutual Life Insurance Co.	10,356,739	15.9	39.0
Sumitomo Life Insurance Co.	8,591,651	13.2	52.2
Meiji Mutual Life Insurance Co.	5,555,294	8.5	60.7
Asahi Mutual Life Insurance Co.	4,899,656	7.5	68.2
Mitsui Mutual Life Insurance Co.	3,645,427	5.6	73.8
Yasuda Mutual Life Insurance Co.	3,054,561	4.7	78.5
Taiyo Mutual Life Insurance Co.	2,714,603	4.2	82.6
Chiyoda Mutual Life Insurance Co.	2,031,071	3.1	85.7
Toho Mutual Life Insurance Co.	1,992,353	3.1	88.8
Kyoei Life Insurance Co., Ltd.	1,503,689	2.3	91.1
Daihyaku Mutual Life Insurance Co.	1,251,991	1.9	93.0
Daido Mutual Life Insurance Co.	1,111,848	1.7	94.7
Fukoku Mutual Life Insurance Co.	1,095,894	1.7	96.4
Nippon Dantai Life Insurance Co., Ltd.	934,392	1.4	97.8
Tokyo Mutual Life Insurance Co.	459,277	0.7	98.5
Nissan Mutual Life Insurance Co.	444,083	0.7	99.2
Heiwa Life Insurance Co., Ltd.	236,035	0.4	99.6
Yamato Mutual Life Insurance Co.	119,290	0.2	99.7
Taisho Life Insurance Co., Ltd.	109,801	0.2	99.9
Seibu-Allstate Life Insurance Co., Ltd.	41,882	0.1	100.0
INA Life Insurance Co., Ltd.	8,746	0.0	100.0
Sony Prudential Life Insurance Co., Ltd.	8,605	0.0	100.0
Equitable Life Insurance Co., Ltd.	5,782	0.0	100.0
Total	65,317,184	100.0	100.0

Note: Percentage totals do not add due to rounding.

Source: Ministry of Finance, Hoken Nenkan 1986 (Insurance Yearbook), pp. 86-87.

Table 4: Foreign Life Insurance Companies Operating in Japan

(as of September 1, 1987)

Company	Year Licensed	Capital
American Companies		
Combined Insurance of America	1981	$28,339,000
Transamerica Occidental Life Insurance Co.	1955	27,578,000
American Amicable Life Insurance Co.	1957	10,000,000
United of Omaha Life Insurance Co.	1964	9,000,000
American Family Life Assurance Co.	1974	3,714,000
American Life Insurance Co.	1954	3,000,000
Trans World Assurance Co.	1973	2,462,000
Old Republic Life Insurance Co.	1973	1,828,000
Midland National Life Insurance Co.	1964	1,504,000
American Fidelity Life Insurance Co.	1973	1,478,000
American Defender Life Insurance Co.	1973	1,200,000
Pioneer American Insurance Co.	1952	750,000
First National Life Insurance Co. of America	1973	500,000
Total		91,353,000
Other Foreign Companies		
National Nederlanden Levensvzederng Maatshappij NV (Netherlands)	1986	27,777,778*

*Dutch gilders converted to dollars at August 31, 1987 exchange rate.

Source: Ministry of Finance

American Family Life Corp. of Columbus, Georgia is one of the best known U.S. life insurance companies operating in Japan. One of six Japanese families uses American Family for some of its insurance needs. Japan in turn is important to American Family; in 1987, 70 percent of its pretax revenues came from Japan. Its flagship product in Japan, cancer insurance, pays benefits to those suffering from the disease while they are still alive. While American Family is permitted to sell a comparable product in 47 American states, cancer insurance remains controversial here. New York's insurance commissioner, for example, is strongly opposed to the product and prohibits its sale in that state.

American Family is an exception. Most U.S. life insurance companies are just not interested in selling insurance in Japan. Connecticut Mutual Life Insurance Co. announced plans in mid-1988 to enter the European and Asian insurance markets in a big way but specifically noted that the plans did not include Japan. The company's executive vice president explained that selling life insurance in Japan "would almost be like reinventing the Toyota and trying to sell it there." Some feel that the Finance Ministry does little to help; rightly or wrongly MOF is seen as making things difficult for new entrants.

New Developments in Life Insurance

As noted above, life insurance may have both investment and insurance components. To the extent that customers buy life insurance in order to save, the product competes with those offered by banks, credit unions and brokerage houses, among others. This competition has involved life insurance companies in the changes affecting financial services. For example, partial deregulation of interest rates on bank deposits in the 1980s has expanded customers' investment options and confronted insurance companies with more competition. On the other hand, the April 1988 elimination of tax-free maruyu accounts at banks and elsewhere made the tax advantages of life insurance loom larger. U.S. life insurance companies had a similar experience when the 1986 tax reforms reduced the tax advantages of individual retirement accounts, making tax-advantaged insurance policies look more attractive.

In Japan one family insurance product, single-premium endowment policies with maturities as short as 10 years or less, has proven especially popular, with sales up 33 percent in June 1988 compared to June 1987. It is unclear to what extent the popularity of these policies is at the expense of traditional savings accounts in banks as compared to other insurance products, but banks have started complaining. There have been calls for insurance companies to suspend sales of such single-premium policies, but the companies counter that consumers are insisting on the product. Banks are also said to support a move to get the insurance companies to increase their premium rates, which would make life insurance less attractive. For whatever reason, life insurance companies have grown rapidly recently; total assets increased from Y70 trillion ($560 billion at Y125=$1.00) in August 1987 to Y80 trillion ($640 billion) in February 1988.

Banks and insurance companies are also rivals on the other side of the balance sheet. As new competitive pressures and international capital requirements have forced banks to trim unprofitable lending arrangements with firms, life insurance companies have moved in, increasing their lending to businesses of all sizes. Between April and June of this year, such lending in Japan was up 20 to 40 percent over the same period of 1987 -- on top of large increases in 1987 over year-earlier levels.

As in the United States, the return on some policies is linked to the performance of the underlying investments that the insurance company makes. Introduced in October 1986, such variable life insurance products push life insurance companies farther into the securities business. While variable life products at first grew rapidly, the stock market crash of October 1987 slowed them down, at least temporarily.

In the United States life insurance companies, since they play the stock market anyway, have taken the next step -- buying brokerage houses so they can offer securities and mutual funds directly, rather than through an insurance product. Prudential, for example, purchased Bache Halsey Stuart Shields Inc., a brokerage firm, in 1981. Many insurance companies also offer mutual funds directly to the public.

Life insurance companies in Japan cannot directly copy their cousins in America. Not only can they not buy or establish a securities firm, they cannot even enter the non-life insurance business in Japan. Doing so overseas is a

little different. Nippon Life paid $538 million for 13 percent of Shearson Lehman Brothers Inc., the large U.S. securities company, in April 1987. In November Yasuda Mutual Life Insurance Co. bought an 18 percent stake in broker PaineWebber Group Inc. for $300 million.

Even here, Japanese banks and insurance companies are in regulatory conflict, this time involving U.S. law. Applying the legal principle that separates banking and commerce, the Federal Reserve Board forced Sumitomo Bank, Ltd. to scale back its proposed 1985 involvement with U.S. investment banker Goldman, Sachs & Co. In other words, U.S. law permits Japanese insurance companies to do what was denied a Japanese bank.

With Shearson and PaineWebber, Nippon Life and Yasuda have taken another long step into the rough and tumble sea of America's financial markets. For starters, Nippon Life lost almost half the value of its investment within a few months, at least on paper, as Shearson's stock plummeted in the last half of 1987. But the Nippon Life-Shearson linkup, like the Yasuda-PaineWebber deal, probably has relatively little to do with making money in investment banking in the United States, short or long term. Both get assistance with their foreign asset management capabilities, which could use some help in light of the billions of dollars they lost on their holdings of U.S. Treasury securities when the yen appreciated. Their U.S. partners also could help them in developing more expertise in the American real estate market.

With Shearson, Nippon Life buys into the financial supermarket concept, the idea of offering the customer multiple financial services (savings, credit cards, brokerage services, loans and insurance) under one roof or from one supplier. Shearson is part of American Express Co., which, through its credit card, insurance, brokerage and other financial services branches, has been one of the chief prototypes of such a company. While such financial supermarkets are a long way off in Japan and have yet to prove their worth in the United States, Nippon Life is clearly interested in a relationship with American Express that involves activities other than insurance and brokerage. At a minimum, Nippon Life hopes to gain experience in selling securities to the public in anticipation of the day when that activity is liberalized in Japan.

There were rumors, quickly denied, in April 1988 that that day is fast approaching. Persistent reports, however, suggest that the Ministry of Finance may be considering major changes in the regulatory treatment of the insurance industry. Asset management may be further liberalized, and the distinctions between life and non-life companies, which have become increasingly artificial, may be changed.

Non-Life Insurance Companies

Non-life insurance obviously includes all other kinds of insurance: car, workers compensation, cargo insurance and many more. The legal system plays a role in the kinds of insurance offered and at what prices. Where damage awards are large or easy to obtain, the demand for non-life insurance increases to protect against potential losses. Japanese and American industries differ somewhat in their product mix because litigation works differently in the two countries.

The competitive situation in non-life insurance parallels that in life insurance. The United States had more than 3,500 companies in 1987; Japan had only 23. Competition in the United States has kept profits low; in both 1986 and 1987 the U.S. industry made money only because investment profits exceeded underwriting losses. While some Japanese companies have recorded net underwriting losses in recent years, the industry as a whole has consistently made money on both its underwriting and investment activities.

Table 5 shows Japan's non-life insurance companies. In contrast to the United States, where no company controls more than 10 percent of the market, Tokio Marine and Fire Insurance Co., Ltd. has a 17.6 percent share as measured by assets.

Table 5: Assets of Japanese Non-Life Insurance Companies

(as of March 31, 1987)

	Assets (millions of yen)	Share	Cumulative Share
Tokio Fire and Marine Insurance Co., Ltd.	Y2,579,939	17.6%	17.6%
Yasuda Fire and Marine Insurance Co., Ltd.	1,861,147	12.7	30.3
Taisho Marine and Fire Insurance Co., Ltd.	1,287,999	8.8	39.1
Sumitomo Marine and Fire Insurance Co., Ltd.	1,144,824	7.8	46.9
Nichido Fire and Marine Insurance Co., Ltd.	994,195	6.8	53.7
Nippon Fire and Marine Insurance Co., Ltd.	942,585	6.4	60.1
Dai-Tokyo Fire and Marine Insurance Co., Ltd.	832,539	5.7	65.8
Fuji Fire and Marine Insurance Co., Ltd.	754,056	5.1	70.9
Koa Fire and Marine Insurance Co., Ltd.	693,264	4.7	75.6
Chiyoda Fire and Marine Insurance Co., Ltd.	674,130	4.6	80.2
Dowa Marine and Fire Insurance Co., Ltd.	544,678	3.7	83.9
Nissan Fire and Marine Insurance Co., Ltd.	503,510	3.4	87.3
Daiichi Mutual Fire and Marine Insurance Co., Ltd.	493,963	3.4	90.7
Kyoei Mutual Fire and Marine Insurance Co.	438,177	3.0	93.7
Nisshin Fire and Marine Insurance Co., Ltd.	358,212	2.4	96.1
Taisei Fire and Marine Insurance Co., Ltd.	271,998	1.9	98.0
Asahi Fire and Marine Insurance Co., Ltd.	117,307	0.8	98.8
Toyo Fire and Marine Insurance Co., Ltd.	68,551	0.5	99.3
Taiyo Fire and Marine Insurance Co., Ltd.	45,974	0.3	99.6
Daido Fire and Marine Insurance Co., Ltd.	28,347	0.2	99.8
Allstate Automobile and Fire Insurance Co., Ltd.	22,622	0.2	100.0
Subtotal	14,658,016	100.0	100.0
Toa Fire and Marine Reinsurance Co., Ltd.	169,833		
Japan Earthquake Reinsurance Co., Ltd.	252,492		
Total	15,080,341		

Source: Ministry of Finance, Hoken Nenkan 1986 (Insurance Yearbook), pp. 400-401.

Foreign firms play a minor role in the Japanese industry, despite its relatively high profitability, which might be expected to attract entry. Table 6 shows the leading foreign insurance companies not included in Table 5. American companies clearly dominate the list, but the importance of this activity should not be overestimated. Depending on the measure, all foreign companies taken together have between 1 and 3 percent of the total non-life market in Japan.

Recent Developments in Non-Life

While life insurance companies are more competitive with non-insurance financial institutions than non-life insurance companies are, the latter have not escaped the heat of increased competition entirely. One new wrinkle showing up in more and more products is insurance with a maturity refund, which introduces a savings component to non-life insurance policies; as such it adds non-life insurance companies to those tapping the huge pool of Japanese savings. Such plans mature in three to 10 years in contrast to conventional plans, which last only one year. If there are no claims by the maturity date, policyholders get a refund. Such plans jumped from 7.7 percent of all non-life insurance premiums in 1976 to 30.9 percent in 1985.

One such product is Kyoei Mutual Fire and Marine Insurance Co.'s "long-term ladies insurance with maturity refund," introduced in fiscal year 1985. The insurance policy pays something whether or not its female customers are injured during the policy period. There were 76,000 Japanese women holding the policy as of March 31, 1987.

In a similar vein, Nissan Fire and Marine Insurance Co., Ltd. offers "nice day." Its objective is to make sports outings worry-free. If one gets seriously hurt by an errant golf ball, the company will pay. And the policyholder may get cash back on maturity. This policy has been available since 1987. "Nice day" is one of a series, the others being "nice life" (combining personal accident and property insurance) and "nice guy" (insurance for the executive on personal belongings and accidents).

Non-life insurance companies have joined the life insurers in racing to fill the vacuum left as banks scale back their lending to companies. Between April and June new loans more than doubled the level of a year earlier.

Overseas Expansion

As Japanese manufacturers have moved abroad, they have taken many of their Japanese component suppliers and banks with them. Although the insurance companies that supply them with group life insurance, fire insurance and other products have tagged along, their role in selling policies overseas has so far been limited. To operate successfully in the United States, they need to understand the legal system to evaluate potential liability, American mortality rates to offer profitable life insurance, and licensing requirements and pricing procedures that are as varied as the 50 states setting them. Japanese non-life insurers are faced with a fiercely competitive industry where the rate of return is considerably less than the all-industry U.S. average -- a marked contrast to the return in industries such as cars where, in an earlier era, high profits attracted Japanese entry.

Table 6: Foreign Non-Life Insurance Companies Operating in Japan

(as of September 1, 1987)

Company	Year Licensed	Capital
American Companies*		
Continental Insurance Co.	1972	$53,566,360
Federal Insurance Co.	1973	13,986,712
Travelers Indemnity Co.	1974	10,000,000
AIU Insurance Co.	1977	8,000,000
Transatlantic Reinsurance Co.	1981	6,041,655
American Home Assurance Co.	1960	4,237,635
CIGNA Insurance Co.	1985	3,000,000
Lumbermens Mutual Casualty Co.	1981	n.a.
Other Foreign Companies		
Zurich Insurance Co. (Switzerland)	1986	102,650,000
Winterthur Swiss Insurance Co. (Switzerland)	1985	89,536,000
Norwich Union Fire Insurance Society Ltd. (UK)	1950	85,000,000
L'Union des Assurances de Paris I.A.R.D. (France)	1966	83,195,000
Skandia International Insurance Corp. (Sweden)	1984	78,989,000
Royal Insurance Public Ltd. Co. (UK)	1975	76,064,497
Eagle Star Insurance Co., Ltd. (UK)	1951	54,518,053
Cornhill Insurance Public Ltd. Co. (UK)	1950	28,035,484
Phoenix Assurance Public Ltd. Co. (UK)	1950	24,516,129
English & American Insurance Co., Ltd. (UK)	1951	22,580,645
Royal Exchange Assurance Co., Ltd. (UK)	1950	21,595,135
New India Assurance Co., Ltd. (India)	1950	20,031,000
Commercial Union Assurance Co. PLC (UK)	1950	16,903,226
Assurance Generales de France I.A.R.T. (France)	1956	14,143,095
Dominion Insurance Co., Ltd. (UK)	1951	13,306,452
Northern Assurance Co., Ltd. (UK)	1950	9,921,952
Alliance Assurance Co., Ltd. (UK)	1950	9,274,193
London Assurance Co., Ltd. (UK)	1950	8,241,936
New Zealand Insurance Co., Ltd. (New Zealand)	1950	7,410,000
QBE Insurance (International), Ltd. (Australia)	1971	5,325,000
Lombard Insurance Co., Ltd. (Hong Kong)	1950	5,121,639
Union Insurance Society of Canton Ltd. (Hong Kong)	1950	3,745,200
Yorkshire Insurance Co., Ltd. (UK)	1950	3,629,032
Hyundai Marine & Fire Insurance Co., Ltd. (Korea)	1976	3,542,300
American International Assurance Co., Ltd. (Hong Kong)	1952	3,361,075
Caledonian Insurance Co., Ltd. (UK)	1950	1,612,903
Malayan Insurance Co. Inc. (Philippines)	1985	563,107
Assicurazioni Generali S.p.A. (Italy)	1987	32,637
Ansvar Mutual Insurance Co. (Sweden)	1979	n.a.

*American firms accounted for 38.5 percent of the capital of foreign companies operating in Japan.

Note: National currencies were converted to dollars at the rates prevailing August 31, 1987.

Table 7: Foreign Activities of Japanese Non-Life Insurance Companies, FY 1986

(in millions of yen)

	Premiums	Percent of All Foreign Business	Foreign as Percent of Total Business
Tokio Marine and Fire Insurance Co., Ltd.	¥19,494	41.3%	1.3%
Taisho Marine and Fire Insurance Co., Ltd.	12,073	25.5	1.6
Sumitomo Marine and Fire Insurance Co., Ltd.	5,083	10.8	0.7
Yasuda Fire and Marine Insurance Co., Ltd.	4,214	8.9	0.4
Nippon Fire and Marine Insurance Co., Ltd.	3,394	7.2	0.6
Nichido Fire and Marine Insurance Co. Ltd.	1,123	2.4	1.9
Dai-Tokyo Fire and Marine Insurance Co., Ltd.	438	0.9	0.1
Koa Fire and Marine Insurance Co., Ltd.	395	0.8	1.5
Chiyoda Fire and Marine Insurance Co., Ltd.	383	0.8	0.1
Nissan Fire and Marine Insurance Co., Ltd.	324	0.7	0.1
Dowa Fire and Marine Insurance Co., Ltd.	276	0.6	0.1
Taisei Fire and Marine Insurance Co., Ltd.	49	0.1	0.0
Kyoei Mutual Fire and Marine Insurance Co.	10	0.0	0.0
Total	47,257	100.0	0.5
By Country			
United States (incl. Guam)	30,058	63.6	
Singapore	3,447	7.3	
Hong Kong	2,590	5.5	
Australia	2,072	4.4	
Netherlands	1,889	4.0	
Saudi Arabia	1,357	2.9	
Belgium	1,076	2.3	
United Kingdom	839	1.8	
Thailand	782	1.7	
France	669	1.4	
Other	2,478	5.1	
Total	47,257	100.0	

Source: Computed from Ministry of Finance data.

All this has apparently proved to be a daunting challenge. Japanese non-life insurance companies play a very limited role in the United States, by far their largest overseas market (see Table 7). Both Japanese life and non-life insurance companies are unimportant in the American market compared to insurance firms from the United Kingdom, Canada, the Netherlands and Switzerland.

More often, Japanese manufacturers and insurance companies follow the practices developed by trailblazing U.S. multinationals: they develop relationships of various kinds with indigenous insurance companies to supply insurance products to their local subsidiaries. In fact, a major activity of Japanese insurance companies in the United States is to assist U.S. companies needing a Japanese partner to provide insurance for their operations in Japan.

Travelers Corp., the American giant, has that type of affiliation with Nippon Life, Nippon Fire and Marine Insurance Co., Ltd. and other Japanese insurers. Travelers designs and offers group life insurance to the American subsidiaries of Japanese firms, obviating the need for a Japanese insurance company to get a location-specific insurance license and develop expertise to serve particular groups of American workers. Its Japanese partners do the same for Travelers' American clients with operations in Japan. Travelers' affiliation with its Japanese partners dates back more than 20 years.

Chiyoda Fire and Marine Insurance Co., Ltd. provides another example. Like Mitsui Bank, Ltd., it has a representative office in Lexington, Kentucky to be close to one of its major clients and major shareholder, Toyota Motor Corp., which has a plant nearby. Its Lexington office acts as a go-between with CNA Insurance Co., which sells insurance on its behalf.

Nonetheless, American insurance companies, having watched Japanese firms in industries from ball bearings to banking make significant inroads in the U.S. market, are bracing for more competition. Within 10 years it is widely expected that Japanese life insurance companies will be selling a wide variety of products in the United States. The companies are applying for licenses to sell insurance in more and more states. Their activities may well include non-insurance products such as mutual funds.

Washington has identified insurance as one of the services in which it would like to see international practices liberalized. Substantially freer access for foreign insurance companies is likely in many countries as a consequence of the Uruguay Round of multilateral trade negotiations now going on under the auspices of the General Agreements on Tariffs and Trade, but liberalization is probably still years from fruition. In the meantime, Washington has negotiated bilateral agreements for the same purpose with a number of countries, notably South Korea and Taiwan in 1987. One Dutch insurance company with an American affiliate has argued to the Taiwanese that, as an American company, it should be permitted access. Using their American subsidiaries, Japanese companies could possibly take similar action to enter markets where the United States has bilateral agreements.

Some U.S. insurance companies are chomping at the bit for the right to sell insurance abroad. However, as noted earlier, Japan holds little attraction despite the size of its market. American firms would rather get into

South Korea's market, where only 38 percent of all households have life insurance, than into Japan, where more than 90 percent do. Japan's insurance market, particularly for life insurance, is seen as mature; business for Americans would come out of the hide of Japanese companies, apparently a harder proposition than selling the concept to a country short on life insurance up to now.

Of course, overseas expansion for Japanese insurance companies is in full force on the other side of the balance sheet -- investment. Much of the still miniscule employment of Japanese insurance companies in the United States is to manage their investments in U.S. Treasury securities, real estate and corporate equities. As Japanese insurance companies diversify their product offerings at home, there is likely to be a corresponding diversification in the United States. As insurance policies take on more of an investment dimension, results are likely to be more important than previously suggesting a move toward U.S. securities with higher yields (but also more volatility) than the traditional option of Treasury securities.

A critic might suggest that Japanese insurance companies have experienced more than enough volatility. As the dollar has depreciated against the yen, Japanese insurance companies have been slow to hedge the value of their U.S. investments, leading to billions of dollars of losses the last three fiscal years. Faced with mounting criticism at home over their inept performance and lack of accountability, the companies may have slowed the rate at which they are adding to their holdings of Treasury securities. But recent reports suggest they are becoming more interested in U.S. equities, which are even riskier. Having lost heavily in the first round, they apparently have decided to double their bets in the second.

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Elizabeth Hughes provided research assistance.

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The views expressed in this report are those of the author and do not necessarily represent those of the Japan Economic Institute.